



Petroleum Market Report

June 5, 2000

Energy Information Administration
Office of Oil & Gas

MARKET SUMMARY

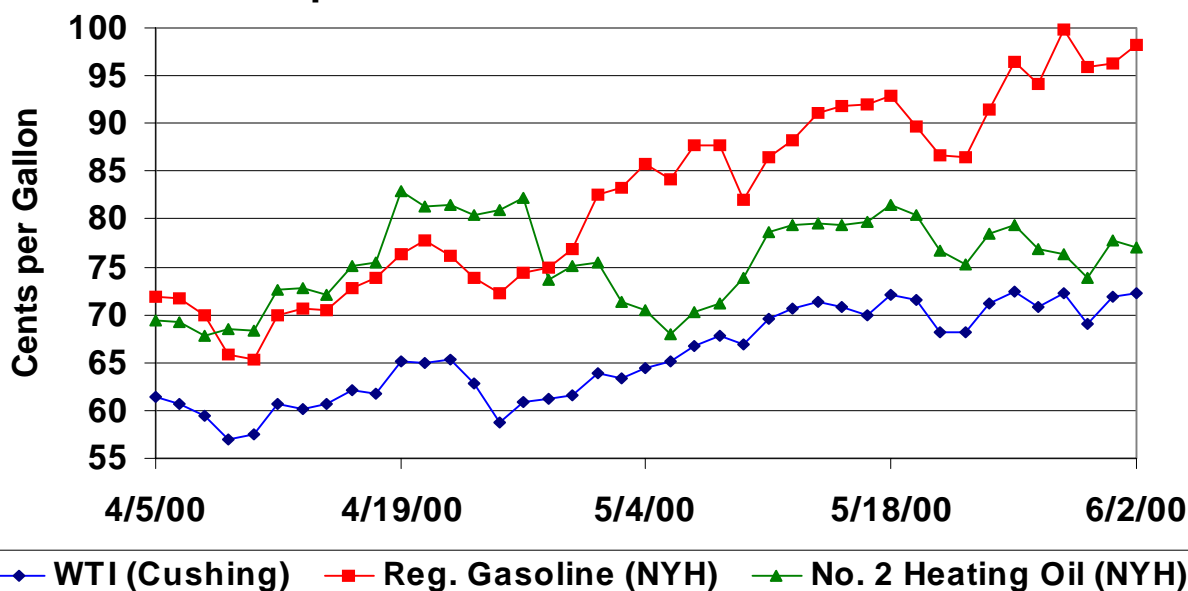
Continued strength in gasoline prices led U.S. petroleum spot and futures markets upward last week, even as OPEC appeared poised to automatically increase production under the as-yet-untested "price band" mechanism. Following the 3-day Memorial Day weekend, prices moved mostly upward on Tuesday, May 30, taking gasoline futures and many spot prices to their highest levels since the Gulf War. Prices fell sharply across the board on Wednesday, as NYMEX June products futures contracts expired, but largely recovered through Friday, supported by crude oil and gasoline stockdraws.

Crude oil - prices traded within a relatively narrow range all week, as market participants awaited the seemingly inevitable movement of the 20-day average OPEC basket price over \$28 per barrel, the upper limit of the "price band" established in March. Various OPEC members have reiterated that an automatic production increase of 500,000 barrels per day will be triggered if the band is exceeded, but the proximity of the next OPEC meeting on June 21 complicates the scenario. With global markets still short of needed supply levels for the remainder of the year, traders appear likely to be cautious over the next few weeks through the meeting.

Gasoline - was again the dominant product on U.S. markets, with attention focused on the Midwest, where both RFG and conventional markets have grown extremely tight. Since EPA rejected RFG waivers for Chicago and Milwaukee on May 26, regional prices at all levels have continued to increase rapidly. U.S. inventories of both total gasoline and RFG declined in the week ending May 26.

Distillate - price movements closely followed those for crude oil, gaining moderately for the week. A modest stockbuild for a third straight week left U.S. inventories 35 million barrels lower than a year ago, and 12 million barrels below the seasonal average band.

U.S. Spot Crude Oil and Product Prices



CHRONOLOGY OF RECENT MARKET EVENTS

- 6/2 - mixed** - crude oil and gasoline prices continued higher, supported by ongoing uncertainty about impending output increases by OPEC and others. OPEC President Ali Rodriguez reiterated the provision for an automatic 500,000-barrel-per-day increase if the 20-day average basket price passes \$28 per barrel, but cautioned that any further increase was not likely at the June meeting.
- 6/1 - rising** - prices rebounded from Wednesday's decline, boosted by crude oil and gasoline stockdraws reported by both API and EIA. With the amount and timing of any OPEC production increase in response to high prices still uncertain, WTI spot and futures rose back over \$30 per barrel.
- 5/31 - falling** - all prices fell solidly, as the prospect of higher OPEC production combined with the expiration of June NYMEX products futures to spark widespread selling. Officials in Iran, Venezuela, and Algeria were all quoted as saying that OPEC could quickly add 500,000 barrels per day if the basket price stays over \$28 per barrel.
- 5/30 - mixed** - sharp gains in gasoline led most prices higher in the first trading session after the 3-day Memorial Day weekend, with only some spot distillate prices losing ground. EPA's rejection of RFG waiver requests for Milwaukee and Chicago, along with a reported cat cracker outage at a Northeastern refinery, were seen as significant factors in gasoline trading.
- 5/26 - falling** - spot and futures prices fell back in profit-taking ahead of the extended Memorial Day holiday weekend, though NYMEX crude oil and gasoline prices held at \$30 per barrel and over \$1 per gallon, respectively. Before selling off late in the holiday-shortened session, NYMEX gasoline hit a new post-Gulf War high over \$1.02 per gallon.
- 5/25 - rising** - crude oil and product prices rose marketwide for a second straight day, led by gasoline, on growing supply concerns ahead of summer Phase 2 RFG startup at retail on June 1. WTI spot and futures moved back over \$30 per barrel, reaching their highest levels since mid-March.
- 5/24 - rising** - prices jumped sharply across the board, led by gasoline, as further waivers on the sale of Phase 2 RFG began to appear less likely. A weekly crude oil stockdraw reported by API, along with problems on a Nigerian crude oil pipeline, added support to markets.
- 5/23 - mixed** - crude oil prices ended nearly unchanged, while gasoline was mostly higher, and distillates lower, for the day. Comments by U.S. Energy Secretary Bill Richardson calling for more OPEC production and discussing possible RFG waivers were seen as significant influences, generally pushing prices lower before late shortcovering brought gains in crude and gasoline futures.
- 5/22 - falling** - all prices fell solidly for a second day, largely attributed to a selloff ahead of NYMEX June crude oil contract expiration at the close. Saudi Arabia and Venezuela reiterated OPEC's intent to raise production if the 20-day basket price rose over \$28 per barrel.
- 5/19 - falling** - gasoline led all prices lower, largely attributed to EPA granting a temporary waiver for RFG requirements in St. Louis. With concerns over Phase 2 RFG supply adequacy seen as driving much of the recent gasoline price firming, the possibility of further waivers prompted heavy selling.